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Chief Executive Officer

May 5, 2009

Revised as noted on the bottom on page 9

To: Supervisor Don Knabe, Chairman
Supervisor Gloria Molina
Supervisor Mark Ridley-Thomas
Supervisor Zev Yaroslavsky
Supervisor Michael D. Antonovich

From: William T Fujioka
Chief Executive Officer

MAY 19, 2009 SPECIAL ELECTION BALLOT MEASURES

This is to provide you with information about the six Statewide propositions on the May 19, 2009 Special Election Ballot. These measures are part of the agreement negotiated between the Governor and the Legislature to close a $42 billion FY 2009-10 State Budget gap.

Proposition 1A would establish a State spending limit, a "rainy day" fund, and extend the tax increases which were approved as part of the February 2009 State Budget agreement. The sales and use tax increase would be extended for one year, and the vehicle license fee and the personal income tax would be extended for two years. Proposition 1B, which would provide supplemental payments to education, would only become effective if Proposition 1A passes. Propositions 1C, 1D, and 1E, which would borrow $5 billion from future lottery profits, redirect $608 million from childhood development funds, and $230 million from mental health funds, respectively, would provide approximately $5.8 billion directly to the State General Fund in FY 2009-10. These funds are already accounted for in the FY 2009-10 State Budget Act. If the voters do not approve these measures, the State Budget shortfall would increase. Proposition 1F would ban salary increases for legislators and State officers when the State has a budget deficit.

The Board has not taken a position on any of the measures.

The official titles of the measures are:

- Proposition 1A: State Budget. Changes California Budget Process. Limits State Spending. Increases "Rainy Day" Budget Stabilization Fund. Legislative Constitutional Amendment. – **No Position**

- Proposition 1B: Education Funding. Payment Plan. Legislative Constitutional Amendment. – **No Position**

- Proposition 1C: Lottery Modernization Act. Legislative Constitutional Amendment and Statute. – **No Position**

- Proposition 1D: Protects Children's Services Funding. Helps Balance State Budget. Legislative Initiative Amendment. – **No Position**

- Proposition 1E: Mental Health Services Funding. Temporary Reallocation. Helps Balance State Budget. Legislative Initiative Amendment. – **No Position**

- Proposition 1F: Elected Officials' Salaries. Prevents Pay Increases During Budget Deficit Years. Legislative Constitutional Amendment. – **No Position**

Attachment I includes a summary of each proposition and comments from affected County departments. Attachment II is a list of all local jurisdiction measures which have qualified for the May ballot.

Please contact me or your staff may contact Manuel Rivas, Jr. of the Chief Executive Office at (213) 974-1464 or via e-mail at mrivas@ceo.lacounty.gov if you have any questions.

WTF:GK
MAL:MR:MS:sb

Attachments

c: Executive Officer, Board of Supervisors
Acting County Counsel
All Department Heads
Legislative Strategist

PROPOSITION 1A: STATE BUDGET. CHANGES CALIFORNIA BUDGET PROCESS. LIMITS STATE SPENDING. INCREASES "RAINY DAY" BUDGET STABILIZATION FUND. Legislative Constitutional Amendment. – COUNTY POSITION: **NONE**

Proposition 1A attempts to protect California's Budget from economic volatility by annually dedicating 3 percent of State General Fund revenues to an existing "rainy day" fund and capping the level of revenues available for expenditure based on the previous ten years of revenue growth. Annual transfers to this fund, which is named the Budget Stabilization Fund (BSF), are currently capped when the fund reaches the greater of 5 percent of revenues or $8 billion. Under Proposition 1A, transfers would increase to 12.5 percent of the State General Fund. The Proposition would restrict access to the fund to those years when the State is facing a year-to-year drop in revenue (adjusted for population growth and inflation), or if a governor declares a fiscal emergency. It also grants a governor new authority to make mid-year spending reductions without legislative approval if a budget falls out of balance after its passage.

Proposition 1A also would extend the tax increases approved as part of the February 2009 State Budget agreement for one to two years, which is estimated to generate $16 billion. The sales tax increase would extend through FY 2011-12 instead of FY 2010-11; the vehicle license fee increase to FY 2012-13 instead of FY 2010-11; and the increase in the personal income tax to the 2012 tax year instead of 2010.

Legislative Analyst's Office Report. The Legislative Analyst's Office (LAO) indicates that Proposition 1A would make the following major changes to the State Budget process:

<u>Revenues in the "Rainy Day" Fund and Their Use</u>. According to the LAO, revenues exceeding the cap are considered unanticipated revenues, which Proposition 1A defines as those that exceed the amount expected based on the revenues received by the State over the prior ten years. The ten-year revenue trend would be adjusted to exclude the impact of shorter-term tax changes. In other cases, unanticipated revenues also may be defined as any revenues above the amount needed to pay for expenditures equal to the prior year's level of spending adjusted for changes in population and inflation.

Beginning in FY 2010-11, any extra revenues would be directed to meet unpaid funding obligations under the Constitution for K-14 education. Proposition 1A is linked to Proposition 1B and if both are approved, the State would be required to pay K-14 schools $9.3 billion to restore the funding reductions approved as part of the FY 2009-10 State Budget Act. Each year, beginning in FY 2011-12, 1.5 percent of State General Fund revenues (currently about $1.5 billion) would be withdrawn from the BSF and paid to schools and community colleges until the entire $9.3 billion is paid. Regardless of the State's financial situation, these payments could not be suspended by a governor. After these payments are made, or if Proposition 1B does not pass, 1.5 percent of State revenues annually would be dedicated for infrastructure or retirement of State bond debt. These payments also could be used to reduce obligations that would otherwise be paid from the State General Fund.

Any additional revenues will be transferred to the BSF to fill the reserve up to its target amount, or will be used to pay off any budgetary borrowing and debt, such as certain loans and Economic Recovery Bonds. Once these payments are made, any extra revenues could be spent on a variety of purposes, including additional contributions to the BSF, payment for infrastructure such as constructing roads, schools, or State buildings, providing one-time tax relief, or paying off unfunded health care liabilities for State employees.

Revenue Trends and Volatility. According to the LAO, the State's revenues are volatile and it is not unusual for them to seesaw drastically from year-to-year. Using a ten-year revenue trend would help reduce, but not eliminate, these year-to-year changes. Although Proposition 1A was agreed to as part of the package to balance the FY 2009-10 State Budget, it would not significantly affect the current year or next fiscal year, as most of its provisions will go into effect starting with FY 2010-11 or later.

Proposition 1A does not limit the amount of revenues that could be collected by the State or the amount of spending that could occur, and it does not restrict the ability of the Legislature and the Governor to approve tax increases. While Proposition 1A could make it more difficult to approve spending increases in some years by restricting access to revenues, it would not cap the total level of spending that could be authorized in any year if alternative revenues were approved.

Restrictions on the Suspension of Transfers. Under Proposition 1A, the circumstances in which a governor may suspend a transfer to the BSF would be limited. Beginning in FY 2011-12, a governor could only suspend the BSF transfer in years when the State does not have enough revenues to pay for spending equal to the prior year's level of spending adjusted for changes in population and inflation, or to address an emergency such as an earthquake.

Governor's Mid-year Authority to Reduce Spending. If Proposition 1A passes, a governor would be given new authority to reduce certain types of spending during a fiscal year without additional legislative approval. Specifically, a governor could reduce many types of spending for general State operations such as equipment purchases or capital outlay by up to 7 percent as well as cost-of-living adjustments to account for inflation for any programs specified in the annual budget. This authority would not apply to any increases for most State employees' salaries.

Effect on State Budgeting. The Legislative Analyst's Office indicates that the precise effect is unknown. Currently, the State's annual revenues available for spending are determined by the State's economic condition. A poor economy means less revenue, and a booming economy means extra revenues. Under Proposition 1A, however, available revenues generally would be based on the past decade. As a result, the amount of revenues available may no longer reflect the State's economy at that time.

In addition, the level of State spending would be reduced to the extent that the BSF grows to a level that exceeds the amount required under current law. These funds would then be available in later years if there is a revenue shortfall. This could help cushion the level of spending reductions in lower-revenue years. Over time, this could help limit the ups and downs of State spending and smooth out spending from year-to-year.

State funding priorities also could change. The State would spend money on different types of programs than otherwise would be the case. Spending could increase for a variety of one-time activities such as repaying budgetary borrowing and debt, infrastructure projects, and temporary tax relief. In some cases, this would mean less money was available to spend on ongoing spending increases.

Affected Departments. The Los Angeles County Office of Education (LACOE) indicates that Proposition 1A, in combination with Proposition 1B, would start the process of repaying schools some of the funds lost by the severe budget cuts that the State's educational system has suffered in recent years.

Support and Opposition. Supporters contend that Proposition 1A would smooth out the State's budget cycle because excess revenues collected during boom years would be put into a reserve fund that could only be used to fill budget shortfalls in years when revenues fall, or to repay bonds. They note that if Proposition 1A had been enacted ten years ago, the State would have faced only a $5.4 billion problem instead of a $42 billion crisis.

Proposition 1A is supported by the California Taxpayers Association; the California State Sheriffs' Association; the League of California Cities; the San Francisco Chronicle; Sheriff Leroy Baca; Mayor Antonio Villaraigosa; Attorney General Jerry Brown; the California Teachers Association; LACOE; Governor Arnold Schwarzenegger; Assembly Speaker Karen Bass; Senate President pro Tempore Darrell Steinberg; Assembly Minority Leader Michael Villines; Senator Dave Cogdill; the Los Angeles Area Chamber of Commerce; and California Budget Reform Now (an alliance of business interests including the California Chamber of Commerce, California Business Roundtable, and the California Alliance for Jobs, which is leading the campaign to support all six special election ballot measures).

Opponents argue that since Proposition 1A limits the amount that can be used from the reserve in years of slow economic growth to the difference between anticipated revenues and prior year spending adjusted for population growth and the Consumer Price Index (CPI), it does not allow the reserve to be used to support a "current services" or "baseline" budget, even if sufficient funds are available in the reserve. The discrepancy arises from the fact that the CPI, the inflation index used by Proposition 1A, is designed to measure changes in the cost of goods purchased by households, rather than governments. Thus, the CPI does not accurately measure the year-to-year increase in the cost of delivering the same level of public services.

Opponents also note that Proposition 1A allows unanticipated revenues to be used to fund an increase in the State's school spending guarantee in the year the unanticipated revenues occur, but it does not adjust the revenue cap to take into account the ongoing cost of sustaining the higher level of education spending. As a result, services outside of the Proposition 98 guarantee such as health and social welfare would be "crowded out" in future years when the Proposition 98 guarantee increases at a rate faster than inflation. This could occur often, since growth in per capita personal income, the normal inflation factor used to calculate the Proposition 98 guarantee, frequently exceeds the rise in the CPI.

Proposition 1A is opposed by the League of Women Voters; the California Faculty Association; the Consumer Federation of California; the United Nurses Association of California; the California Federation of Teachers; Service Employees International Union; Health Access California; and the California Republican Party.

The California State Association of Counties (CSAC) has taken a neutral position on Proposition 1A. CSAC notes that a spending cap does not account for nearly a decade of State under-funding of county administered human services programs, creating a deficit which now reaches approximately $1 billion per year. Those services would probably remain perpetually under-funded if spending is capped at current levels. However, Proposition 1A also could have beneficial effects in the long-term. For example, the "rainy day" fund would make it unlikely that the Legislature would be tempted to borrow property taxes, as allowed by current law. It could also reduce the volatility of State General Fund revenues through economic cycles, providing more predictability for the State and the programs it funds.

PROPOSITION 1B: EDUCATION FUNDING. PAYMENT PLAN. Legislative Constitutional Amendment. – COUNTY POSITION: **NONE**

Proposition 1B would amend the State Constitution to require supplemental payments to school districts and community colleges to address recent budget reductions. Payments to local school districts would be allocated in proportion to average daily attendance and may be used for classroom instruction, textbooks, and other local educational programs. Proposition 1B is contingent upon the passage of Proposition 1A.

Legislative Analyst's Office Report. The Legislative Analyst's Office (LAO) reports that Proposition 1B would amend the State Constitution related to Proposition 98 to:

<u>Create a $9.3 Billion Supplemental Education Obligation</u>. The measure requires the State to make supplemental payments totaling $9.3 billion to K-14 education. The payments would be made in annual installments of 1.5 percent of the State General

Fund beginning in FY 2011-12. They would become part of the base budget when calculating the following year's Proposition 98 minimum guarantee.

<u>Provide Supplemental Payments in Place of Maintenance Factor Payments</u>. These payments would replace those that the State would otherwise be required to make under current law for maintenance factor obligations created in FY 2007-08 and FY 2008-09.

<u>Grant Discretion Over Distribution of Funds</u>. The measure gives discretion to the Legislature and the Governor regarding how these payments would be distributed to K-14 schools.

The Legislative Analyst's Office also indicates that there is uncertainty over how the Constitution would be interpreted in its current form regarding Proposition 98 funding. Different interpretations would potentially result in very different Proposition 98 funding requirements under existing law, making it difficult to know how this measure would change the State's finances. Additionally, the Proposition 98 minimum guarantee changes each year in large part due to changes in the State's economy and revenues. Therefore, shifts in the economy and revenues can change the minimum guarantee by billions of dollars.

Affected Departments. The Los Angeles County Office of Education indicates that Proposition 1B, in combination with Proposition 1A, would start the process of repaying schools some of the funds lost by the severe budget reductions that the State's educational system has suffered in recent years. Proposition 1B would establish a repayment plan to ensure schools are repaid as economic conditions improve.

Support and Opposition. Supporters contend that Proposition 1B would start the process of repaying some of the cuts to education resulting from the current budget shortfall and would ensure that education funds will be repaid as economic conditions improve, preventing the permanent loss of these funds.

Proposition 1B is supported by the California Teachers Association; Association of California School Administrators; California Retired Teachers Association; California School Employees Association; California State Parent Teachers Association; California State University Board of Trustees; University of California Board of Regents; Association of Los Angeles Deputy Sheriffs; California District Attorneys Association; California Fire Chiefs Association; California Peace Officers Association; California Police Chiefs Association; California Probation, Parole, and Correctional Association; California State Sheriffs' Association; California Coalition of Law Enforcement Associations; Chief Probation Officers of California; Los Angeles County Professional Peace Officers Association; Peace Officers Research Association of California; California Senior Advocates League; California Farm Bureau Federation; California State Conference of the National Association for the Advancement of Colored People; California Hispanic Chamber of Commerce; California Manufacturers and Technology Association; Consumer Attorneys of California; California Life and

Health Insurance Companies; California Hospital Association; LACOE; Governor Arnold Schwarzenegger; Attorney General Jerry Brown; Senate President pro Tempore Darrell Steinberg; Senators Elaine Alquist, Gil Cedillo, Dave Cogdill, Mark Leno, Carol Liu, Fran Pavley, Gloria Romero, and Lois Wolk; Assembly Speaker Karen Bass; Assembly Minority Leader Michael Villines; and California Budget Reform Now (an alliance of business interests including the California Chamber of Commerce, California Business Roundtable, and the California Alliance for Jobs, which is leading the campaign to support all six special election ballot measures).

Opponents note that Proposition 1B depends on the passage of Proposition 1A, which they describe as a complex, hastily-drafted measure, which will freeze State spending at a level that is already too low to guarantee adequate service and prohibits the State from using increased revenue when the economy recovers. Opponents further contend that Proposition 1B is unnecessary because the Legislature already has the authority to restore State funding for education.

Proposition 1B is opposed by the California Nurses Association; the American Federation of State, County, and Municipal Employees; and the California Republican Party.

Because Proposition 1B would have no fiscal effect without passage of Proposition 1A, opposition to Proposition 1A by many groups such as the League of Women Voters, the California Faculty Association, the Consumer Federation of California, the United Nurses Association of California, the California Federation of Teachers, Service Employees International Union, Health Access California, and the Howard Jarvis Taxpayers Association could also have the effect of defeating the purpose of Proposition 1B.

The California State Association of Counties has taken a neutral position.

PROPOSITION 1C: LOTTERY MODERNIZATION ACT. Legislative Constitutional Amendment and Statute. – COUNTY POSITION: **NONE**

Proposition 1C would make major changes to the California State Lottery Act of 1984, which was enacted by voter initiative. Proposition 1C would authorize the State to borrow $5 billion from future lottery profits to help balance the State Budget in FY 2009-10. Lottery profits are the revenues that remain after payment of prizes and lottery operating expenses. Under Proposition 1C, lottery profits now dedicated to schools and colleges would be used to repay the borrowing. Proposition 1C would increase payments to education from the State General Fund to make up for the loss of these lottery payments.

Proposition 1C also would allow additional borrowing from lottery profits in the future. While the State General Fund would benefit from lottery profits in excess of debt repayment, these profits probably would not be sufficient to cover the higher payments to education required by this measure. Therefore, the State would have to identify new revenues or spending reductions to make these future higher payments to education.

Legislative Analyst's Report. The Legislative Analyst's Office (LAO) notes that in February 2009, the Legislature and the Governor approved major spending reductions and revenue increases to address the $42 billion State General Fund shortfall. The enacted budget plan assumed that the State would receive $5 billion from future lottery profits in FY 2009-10 as a result of the passage of Proposition 1C. Under current revenue forecasts, these funds are necessary for the State Budget to be in balance. If voters reject Proposition 1C, the Legislature and the Governor will have to agree to billions of dollars of additional spending cuts, tax increases, and/or other solutions to balance the FY 2009-10 State Budget.

Uses of Lottery Profits. According to the LAO, if the State successfully borrows about $5 billion from future lottery profits in FY 2009-10, annual debt-service payments could total between $350 million and $450 million annually for 20 to 30 years. Initial lottery profits would be used for these debt-service payments. Any remaining lottery profits would be available for State General Fund expenses including debt-service costs on bonds issued by the State to fund roads, schools, prisons, and other infrastructure projects; debt-service costs on Economic Recovery Bonds, which were approved by voters as part of Proposition 57 of 2004 to address State Budget deficits from earlier in this decade; and other debts incurred by the State General Fund such as amounts borrowed from other State funds to help address budgetary shortfalls.

Flexibility in the Size of Lottery Prize Payouts. Proposition 1C gives the Lottery Commission more flexibility to increase the percentage of lottery funds returned to players as prizes. The LAO indicates that higher prize payouts can attract more spending for lottery tickets and increase lottery profits. Under Proposition 1C, the State Lottery Commission could set prize payouts above 50 percent of lottery sales.

State's Ability to Sell Lottery Bonds. In 2008, the deterioration of the housing market led to insolvency or other fiscal troubles for many major financial institutions. This led to a global credit shortage that reduced the ability and willingness of investors to lend money to many individuals, companies, and governments, including the State. While access to credit has improved in recent months, the LAO notes that it is possible that California would not be able to meet its goal of $5 billion in lottery borrowing in FY 2009-10.

Affected Departments. Proposition 1C would have no direct affect on County departments.

Support and Opposition. Supporters indicate that failure to pass Proposition 1C will immediately create a $5 billion State Budget deficit, adding to what will probably be a far larger deficit, currently estimated by the LAO to be $8 billion.

Proposition 1C is supported by Governor Arnold Schwarzenegger; Attorney General Jerry Brown; Senate President pro Tempore Darrell Steinberg; Assembly Speaker

Karen Bass; Assembly Minority Leader Michael Villines; Senators Elaine Alquist, Gil Cedillo, Dave Cogdill, Mark Leno, Carol Liu, Fran Pavley, Gloria Romero, Pat Wiggins and Lois Wolk; Los Angeles Mayor Antonio Villaraigosa; League of California Cities; Ed Bonner, President of the California Sheriffs' Association; Sheldon D. Gilbert, President of the California Fire Chiefs Association; Dr. Glen W. Thomas, California Secretary of Education; Bill Hauck, Vice-Chairman of California Business for Education Excellence; the California Teachers Association; California State University Board of Trustees; California State Parent Teachers Association; California School Employees Association; Association for Los Angeles Deputy Sheriffs; California District Attorneys Association; California Police Chiefs Association; Chief Probation Officers Association; Los Angeles County Professional Peace Officers Association; Sheriff Leroy Baca; California Hospital Association; and California Budget Reform Now (an alliance of business interests including the California Chamber of Commerce, California Business Roundtable, and the California Alliance for Jobs, which is leading the campaign to support all six special election ballot measures).

Opponents of Proposition 1C argue that borrowing to pay for the State's operating budget is irresponsible because it will subject the State to long-term debt repayments. They also question whether the State will be able to borrow $5 billion at reasonable rates in the current credit markets.

Proposition 1C is opposed by Senator Bob Huff; the League of Women Voters; the California Coalition Against Gambling Expansion; State Insurance Commissioner Steve Poizner; Former Congressman Tom Campbell; and the California Republican Party.

The California State Association of Counties has taken a neutral position.

PROPOSITION 1D: PROTECTS CHILDREN'S SERVICES FUNDING. HELPS BALANCE STATE BUDGET. Legislative Initiative Amendment. – COUNTY POSITION: **NONE**

Proposition 1D would amend the voter-approved California Children and Families Act of 1998, also known as Proposition 10, to redirect a portion of unspent tobacco tax revenues temporarily from First 5 Programs to health and human services for children from birth to five years of age. Upon voter approval, Proposition 1D would amend the California Children and Families Act to:

- Redirect $340 million in Proposition 10 funds held by the State First 5 Commission that are not encumbered or expended by July 1, 2009 to support State health and human services programs for children up to five years of age. This would include, but would not be limited to, early intervention and prevention services for infants and toddlers with developmental disabilities, child welfare services, adoption assistance, foster care, Kin-GAP, and health care services;

- Redirect $268 million in Proposition 10 funds annually for five years to support health and human services programs for children up to five years of age. These funds must be used to provide direct health care services and human services, including services for at-risk families who receive child welfare services and direct early education, including preschool and child care. Of the redirected funds, $54 million would come from the State First 5 Commission, and $214 million from local First 5 Commissions;

- Require local First 5 Commissions to submit annual audits and reports of expenditures directly to a county board of supervisors, a county auditor, and the State First 5 Commission;

- Require a county auditor to serve on the local First 5 Commission; and

- Allow a county controller to borrow local First 5 Commission funds for that county's general fund, unless the transfer would interfere with the local commission's activities. Any borrowed funds must be returned with interest.

Background. Proposition 10 established the California Children and Families Program, also known as First 5 California, which provides early development programs for children up to five years of age and their families. The program is funded by a State excise tax on cigarettes and other tobacco products. Revenues are deposited into the California Children and Families Trust Fund. Twenty percent of the Proposition 10 revenue is appropriated to the State First 5 Commission. The remaining 80 percent is appropriated to the 58 local First 5 Commissions. First 5 Commissions are required to use Proposition 10 revenues to provide services in three areas: 1) child health; 2) child development; and 3) support for family functioning.

Legislative Analyst's Office Report. The Legislative Analyst's Office (LAO) estimates that Proposition 10 will generate $500 million in FY 2009-10. Based on the LAO's analysis of trends on tobacco consumption, Proposition 10 revenue is expected to decrease by about 3 percent annually. Proposition 10 provides that any revenues to the State and local First 5 Commissions not spent during a fiscal year may be carried over for use in subsequent fiscal years. According to the LAO, as of June 30, 2008, local First 5 Commissions had a total of approximately $2.1 billion in unspent revenues, and the State First 5 Commission had approximately $400 million in unspent funds.

The Legislative Analyst's Office estimates that Proposition 1D would result in State General Fund savings of up to $608 million in FY 2009-10 and ~~$238~~ **$268** million annually from FY 2009-10 through FY 2013-14 by temporarily redirecting a portion of Proposition 10 funds from the California Children and Families Program to replace State-funded support of health and human services programs for children up to five years of age. It would reduce funding for the State and local First 5 Commissions by $268 million annually from FY 2009-10 through FY 2013-14.

The Legislative Analyst's Office notes that the reduction in First 5 funds could result in additional State and local costs to the extent that some families and children currently receiving services funded by First 5 would seek other State or local services. The LAO cautions that absent passage of this measure, other budget reductions or revenue increases would be needed to address the State's severe fiscal problems.

Affected Departments. In Los Angeles County, First 5 LA uses Proposition 10 revenues to provide an array of services specifically developed to meet the needs of the families and youngest children. These services include: prenatal care, health and nutrition programs, preschool and school readiness, developmental screenings and assessments, parent education and support services, and workforce development.

The Department of Children and Family Services indicates that First 5 LA provides $10 million annually in grants for the Partnership for Families Child Abuse Prevention Program which serves families with children from birth to five years of age who are at-risk for abuse. Funding for this program could end if Proposition 1D is approved by the voters. However, if the initiative does not pass, there is a possibility that State funding for County child welfare programs will be reduced.

The Department of Public Health (DPH) indicates that although the cut to the Proposition 10 Commission will not directly impact DPH programs that currently receive First 5 LA funds, the impact to community based organizations that rely on these funds could be devastating. Many of the First 5 funded programs that provide prevention services and reduce the client load for County funded services could be severely impacted resulting in loss of client services.

The Office of Child Care indicates that First 5 LA supports a range of services designed to improve the healthy growth and development of young children through funds to local organizations throughout the County. These services often supplement existing services for children ages birth to five years of age and their families. According to the Office of Child Care, the First 5 LA partnership with their office is instrumental in the implementation of the Steps to Excellent Project. First 5 LA funds the rating reviews of child care and development programs participating in the project and will conduct the formal evaluation of the pilot project. If Proposition 1D passes, it is likely that these support services would not be considered direct services to children and would therefore end at the close of the funding period.

Support and Opposition. Supporters contend that Proposition 1D will not permanently shift First 5 funds from their original purpose, but will merely redirect these funds temporarily to help solve the State's current budget crisis and prevent further cuts in services to children. They note that State and local First 5 commissions have almost $2.5 billion in unspent funds that can be used to offset the deep cuts to health and social services programs that were made to close the State Budget gap.

Proposition 1D is supported by the California Fire Chiefs Association; California Police Chiefs Association; California State Sheriffs' Association; California Peace Officers Association; California District Attorneys Association; Chief Probation Officers of California; League of California Cities; California Teachers Association; California

Retailers Association; California Black Chamber of Commerce; California Hispanic Chamber of Commerce; Los Angeles Area Chamber of Commerce; California Hospital Association; California Children's Hospital Association; California Association of Physician Groups; Governor Arnold Schwarzenegger; Attorney General Jerry Brown; Senate President pro Tempore Darrell Steinberg; Assembly Speaker Karen Bass; Assembly Minority Leader Michael Villines; Senator Dave Cogdill; and numerous other elected officials; and California Budget Reform Now (an alliance of business interests including the California Chamber of Commerce, California Business Roundtable, and the California Alliance for Jobs, which is leading the campaign to support all six special election ballot measures).

Opponents argue that Proposition 1D is a stopgap measure that does nothing to address the State's ongoing fiscal crisis. By taking funding from existing First 5 programs, it will result in other costs to State and local agencies which will have to reduce programs and services for children.

Proposition 1D is opposed by the American Federation of State, County, and Municipal Employees; American Academy of Pediatrics; California Parent Teachers Association; League of Women Voters of California; California Federation of Teachers; California Association of Young Children; California Child Development Corps; California Family Resource Association; California Nurses Association; California Pan-Ethnic Health Network; California Women Infants and Children Association; Dental Health Foundation; Early Childhood Educators Network; First 5 Association of California; Having Our Say; Health Access California; National Association of Social Workers; Prevent Child Abuse; Youth Law Center; Alameda County Child Care Planning Council; Beverly Hills Democrats; Child Care Coordinating Council of San Mateo; Early Development Services; Pediatric Dental Initiative; 39 individuals; and the California Republican Party.

Your Board opposed legislation, SBX1 5 of 2008 and SB 893 of 2007, which would have de-funded county First 5 commissions and sought voter approval to redirect all Proposition 10 revenues to the State General Fund to fund health care services. Both measures failed passage in the Senate Health Committee.

The California State Association of Counties (CSAC) has taken a neutral position on Proposition 1D. CSAC notes that although the annual sweep of local commission funding could be detrimental to local community programs, the funding will be directed by the State to similar existing State-funded purposes. If the measure does not pass, CSAC cautions that the State may employ other methods, including additional reductions to county child welfare and health services, to address the budget crisis.

PROPOSITION 1E: MENTAL HEALTH SERVICES FUNDING. TEMPORARY REALLOCATION. HELPS BALANCE STATE BUDGET. Legislative Initiative Amendment. – COUNTY POSITION: **NONE**

Proposition 1E would authorize a two-year redirection of a portion of Proposition 63 (Mental Health Services Act) funds to support the Early and Periodic Screening, Diagnosis and Treatment (EPSDT) program, which provides mental health services to Medi-Cal eligible children and youth under the age of 21. It would redirect $226.7 million from Proposition 63 in FY 2009-10, and between $226.7 million and $234 million in FY 2010-11 for the EPSDT program, which would otherwise be funded from the State General Fund.

The Department of Finance estimates that Proposition 63 will generate $981 million in FY 2008-09 and $887 million in FY 2009-10. Most of these funds are intended to be allocated to counties to support local mental health programs and provide a broad continuum of prevention, and early intervention, as well as the necessary infrastructure, technology and training that support the system of mental health services.

Background. In 2004, voters approved Proposition 63, which provides funding for mental health services through a one-percent personal income tax surcharge on taxable incomes above $1 million. Annual revenues from Proposition 63 have ranged from $900 million to $1.5 billion, and are used for five purposes: 1) expanding community services; 2) providing workforce education and training; 3) building capital facilities; 4) expanding prevention programs; and 5) establishing innovative programs. The California Department of Mental Health has the lead role in implementing most Proposition 63 programs, generally through contracts with counties. Counties draft and submit for State review and approval their plans for the delivery of these mental health services. Revenues must be used to expand services and cannot be used for other purposes. The State is specifically barred from reducing State General Fund support for mental health services below the FY 2003-04 level.

Legislative Analyst's Office Report. According to the Legislative Analyst's Office (LAO), Proposition 1E would result in State General Fund savings of about $230 million annually for two years, FY 2009-10 and FY 2010-11, and an equivalent reduction in Proposition 63 funding for those two years. The LAO notes that the proposed temporary redirection of funds would reduce funding for mental health programs. To the extent that such programs are reduced, State and local governments would incur added costs for homeless shelters, social services programs, medical care, law enforcement, county jails, and State prison operations. The LAO indicates that the extent of the potential costs would depend on the programmatic changes that resulted from the redirection of funding. Because some Proposition 63 funds are used to match Federal Medi-Cal Program funds, the redirection of Proposition 63 funds would result in a decrease in Federal financial support. The LAO concludes that if Proposition 1E fails to be approved by the voters, other budget reductions or revenue increases would need to be adopted to address the State's severe fiscal problems.

Affected Departments. The Department of Mental Health (DMH) estimates that the redirection of Proposition 63 funds for two years would result in a loss to the County of $64.4 million in FY 2009-10 and $66.4 million in FY 2010-11. This loss would likely result in a decrease in outpatient services to undocumented clients and a delay in the implementation of Workforce Employment and Training Projects and the Innovations Projects. Any lack of outpatient services to undocumented clients usually results in higher usage of very expensive emergency room visits and acute hospital stays that use County general funds.

Delay of implementation of Workforce Employment and Training Projects will further hinder the Department's ability to recruit and train staff for the underserved populations in Los Angeles County. It is already very difficult for DMH and all contract providers within the mental health system of care to recruit culturally appropriate staff with clinical degrees that speak the 13 languages required by existing law. Postponement of these projects undermines the Department's ability to serve minority groups in our community. The Innovations Projects, currently in the planning and development stage, are also likely to be postponed for two years. The priorities for the Innovations Projects include: 1) the uninsured; 2) the homeless; and 3) the integration of mental health and physical health treatment. All three of these priority areas would enhance the ability to address difficult-to-serve high county cost clients in a more cost effective manner.

Support and Opposition. Supporters contend that delays in starting new programs under Proposition 63 have resulted in $2.5 billion in unspent tax funds that could be put to use to help balance the State Budget and avoid more severe budget problems, which would result in deeper cuts in mental health programs. Further, they note that Proposition 1E would ensure that the State will provide funds for the EPSDT program, a use consistent with the intention of Proposition 63.

Proposition 1E is supported by Governor Arnold Schwarzenegger; Attorney General Jerry Brown; Senate President Pro Tempore Darrell Steinberg; Assembly Speaker Karen Bass; Assembly Minority Leader Michael Villines; Senator Dave Cogdill; Los Angeles Mayor Antonio Villaraigosa; California Taxpayers Association; League of California Cities; and California Budget Reform Now (an alliance of business interests including the California Chamber of Commerce, California Business Roundtable, and the California Alliance for Jobs, which is leading the campaign to support all six special election ballot measures).

Opponents argue that Proposition 1E is a stopgap measure that does nothing to address the State's fundamental fiscal crisis. While the amount it would transfer to the State General Fund is only a small fraction of the State Budget, it provides the only meaningful source of help to those living with mental illness in our communities. Further, they note that it is shortsighted to reduce funding for Proposition 63 programs because they prevent more serious mental illness and save local governments on the State funding by reducing homelessness, hospitalization, and incarceration.

Proposition 1E is opposed by the League of Women Voters of California; California Federation of Teachers; California Nurses Association; Health Access California; California Psychiatric Association; California Psychological Association; California Society of Addiction Medicine; California Society for Clinical Social Work; California Council of Community Mental Health Agencies; National Alliance on Mental Illness, California; Mental Health Association of Alameda County; Mental Health Association of the Central Valley; Mental Health Association of Orange County; No Health Without

Mental Health; Consumer Advocacy Coalition Santa Barbara; Therapists for Peace and Justice, San Francisco Bay Area; Sanctuary Psychiatric Centers Santa Barbara; Mental Health Association of San Francisco; American Federation of State, County and Municipal Employees; Wellstone Democratic Renewal Club; El Cerrito Democratic Club; Solano County Board of Supervisors; Senator Lou Correa; Mayor Marty Blum, City of Santa Barbara; and the California Republican Party.

Based on your Board's support for Proposition 63 in 2004, the County opposed the redirection of Proposition 63 funds proposed during the FY 2008-09 and FY 2009-10 State Budget negotiations, noting that the measure explicitly prohibited use of the funds to supplant funding for existing programs.

The California State Association of Counties (CSAC) has taken a neutral position. However, CSAC indicates that counties have started new programs with revenue from Proposition 63, and now face the prospect of much of that revenue being redirected for two years. While the two-year sweep of Proposition 63 funds will be harmful to mental health programs, CSAC notes that if the measure does not pass, the State may implement additional cuts to local mental health funding streams to address the budget crisis.

PROPOSITION 1F: ELECTED OFFICIALS' SALARIES. PREVENTS PAY INCREASES DURING BUDGET DEFICIT YEARS. Legislative Constitutional Amendment. – COUNTY POSITION: **NONE**

Proposition 1F would amend the State Constitution to prevent approval of salary increases for elected State officials when the State General Fund is expected to end the year with a specified deficit. The California Citizens Compensation Commission establishes the annual salary and benefits for elected State officials, including the Governor. By June 1st of each year, the State Director of Finance would be required to notify the Commission if the State's "rainy day" reserve fund is expected to have a negative balance of 1 percent or more of the estimated State General Fund revenues on June 30th, the last day of the State's fiscal year. If the Director of Finance certifies such a deficit, State officials would not be eligible to receive a salary increase. Currently, 1 percent of State General Fund revenues is almost $1 billion.

Legislative Analyst's Office Report. The Legislative Analyst's Office (LAO) indicates that the Commission does not grant pay increases every year. Since January 2000, the Commission has raised the pay of elected officials four times. Over this period, the total increase for each official has been equal to or less than the rate of inflation. The LAO estimates that if the Commission was inclined to grant officials a 3 percent raise but was prevented from doing so under Proposition 1F, the State would save less than $500,000 that year. Consequently, savings in any year would be minor. The LAO notes that this measure may influence the Legislature and the Governor to make different budgetary decisions in order to reduce a projected State deficit or make it less likely that a deficit occurs.

Affected Departments. Proposition 1F would have no direct affect on County departments.

Support and Opposition. Supporters contend that State officials should not have their salaries increased while services are being reduced. They suggest that Proposition 1F would bring accountability to the Legislature and motivate elected official to serve the public more responsibly.

Proposition 1F is supported by Governor Arnold Schwarzenegger; Attorney General Jerry Brown; Senate President pro Tempore Darrell Steinberg; Assembly Speaker Karen Bass; Assembly Minority Leader Michael Villines; Senator Dave Cogdill; Los Angeles Mayor Antonio Villaraigosa; California Taxpayers Association; League of California Cities; Senator Abel Maldonado; Lewis K. Uhler, President of the National Tax Limitation Committee; Joel Fox, President of the Small Business Action Committee; and California Budget Reform Now (an alliance of business interests including the California Chamber of Commerce, California Business Roundtable, and the California Alliance for Jobs, which is leading the campaign to support all six special election ballot measures).

Opponents indicate that the measure would be ineffective and would only give the illusion of change, saving only a minor amount of money. Further, they contend that the State budgeting process has problems that can only be solved by structural reform.

It is opposed by Peter Stahl, author of Pete Rates the Propositions, who signed the argument against Proposition 1F in the Official Voter Information Guide; and the California Republican Party.

The California State Association of Counties has taken a neutral position.

BALLOT LANGUAGE – LOCAL JURISDICTION MEASURES APPEARING ON THE SPECIAL ELECTION BALLOT – MAY 19, 2009

MEASURE

PALMDALE CITY

A To maintain and improve essential general city services including: public safety, Sheriff's deputies, gang/crime prevention, senior services, job creation, and business development, shall the City of Palmdale increase the existing Transient Occupancy Tax, ("hotel room tax"), charged only to persons who occupy hotel/motel rooms in Palmdale, transmitted to the City of Palmdale by those who collect room charges, from 7 percent to 10 percent, with expenditures approved through general fund budgets adopted in open public hearings, subject to annual audits?

B Shall the voters be allowed to choose, without limitation, those persons whom the voters desire to serve on the City Council, by repealing Ordinance No. 1184 (Palmdale Municipal Code Chapter 4.16), which established term limits for the Mayor and City Council Members?